COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3929-01
BILL NO.: HB 1547
SUBJECT: Economic Development; Economic Development Dept.; Insurance - General; Taxation and Revenue - General.
TYPE: Original
DATE: February 14, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	($54,811 to $10,054,811)	($57,821 to $10,057,821)	($59,304 to $10,059,304)
Total Estimated Net Effect on All State Funds	**($54,811 to $10,054,811)**	**($57,821 to $10,057,821)**	**($59,304 to $10,059,304)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses
This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state this proposal would increase Certified Capital Company (CAPCO) credits by $100 million, or $10 million per year starting in calendar year 2001 and claimed in FY 2001. Total CAPCO credits claimed with the new and existing programs combined would be $24 million per year, including the current distressed community portion of the existing law. This proposal would also allow for an increase of the administrative costs of operating new CAPCOs to 10%, which is currently 2.5% by DED rule, plus other reasonable and necessary expenses as approved. It also allows CAPCOs to invest in any security or policy issued by an insurance company or an affiliate of an insurance company or any account maintained by an insurance company or an affiliate of an insurance company, up to 5% of certified capital, which is currently prohibited by law.

The DED assumes all $100 million in credits will be authorized in CY 2000 and credits of $10 million could be claimed against CY 2000 tax returns in FY 2001. The DED assumes the need for one (1) Economic Incentive Specialist II (at $36,468 annually) to administer the additional tax credits.

Officials from the **Department of Revenue (DOR)** anticipates an increase in the number of tax credits. However, the increase is unknown. The Division of Taxation, Personal Tax Bureau, will need one temporary tax season employee (a cost of $6,067) for every 130,000 credits filed with this credit (key entry) and one Tax Processing Tech I for every 2,000 credits claimed (processing). One Tax Processing Tech I will also be needed for every 3,000 pieces of correspondence received regarding this legislation

Officials from the **Department of Insurance (INS)** states this proposal modifies the aggregate credits allowed by authorizing an additional $10 million in year 2000 and an amount not to exceed 10% of cumulative credits earned in previous years for every year thereafter beginning in 2001. This proposal will not, however, have a fiscal impact on their agency.

Officials from the **Office of Administration** stated this proposal should not result in additional costs or savings to their agency, but there may be impact on total state revenue.

Oversight assumes the Department of Economic Development will not require the additional office space for the 1 FTE that is requested. Oversight also assumes the DOR will request additional FTE if it is determined that it is needed, however, for purposes of the fiscal note, oversight assumes this proposal will not fiscally impact the Department of Revenue.

This proposal would result in a decrease in Total State Revenues.

FISCAL IMPACT - State Government	FY 2001 (10 Mo.)	FY 2002	FY 2003
GENERAL REVENUE FUND			
Loss - General Revenue Fund	$0 to	$0 to	$0 to
Additional tax credits on CAPCO	($10,000,000)	($10,000,000)	($10,000,000)
Cost - Department of Economic Development			
Personal service (1 FTE)	($31,137)	($38,314)	($39,272)
Fringe benefits	($9,575)	($11,782)	($12,076)
Expense and equipment	($14,099)	($7,725)	($7,956)
Total Cost - DED	($54,811)	($57,821)	($59,304)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($54,811 to $10,054,811)**	**($57,821 to $10,057,821)**	**($59,304 to $10,059,304)**

FISCAL IMPACT - Local Government	FY 2001 (10 Mo.)	FY 2002	FY 2003
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal could have a fiscal impact on certain small businesses, including certified capital companies.

DESCRIPTION

This bill makes several changes to the Missouri Certified Capital Company Law. For companies designated as certified capital companies (CAPCO's) after August 28, 2000, no more than 10% of their certified capital may be considered as a reasonable cost for the purpose of forming, syndicating, managing, or operating the CAPCO. Companies designated as CAPCO's after this date are also prohibited from investing more than 5% of their certified capital in a security or policy issued or an account maintained by an insurance company or insurance company affiliate. Current law allows the Director of the Department of Economic Development (DED), with the approval of the Commissioner of Administration, to reduce from 100% the proportion of the investment for which tax credits will be awarded, beginning any time after August 28, 1999. The bill changes this date to any time after August 28, 2005, so that 100% of the investment can

DESCRIPTION (continued)

qualify for tax credits between 1999 and 2005. The bill changes the total amount of certified capital for which credits are allowed, from a cap of $10 million in aggregate credits to $5 million for calendar year 1998, $10 million for calendar year 2000, and to no more than 10% of the cumulative credits earned in previous years for each year after 2000. The bill defines a "qualified Missouri development stage business" as certain businesses within an "emerging industry" as defined by DED, or with gross sales in the most recently completed fiscal year of less than $2 million; and clarifies that allowable distributions, other than qualified distributions, are distributions made from certified capital. Finally, the bill allows companies with gross sales of up to $7.5 million to be qualified businesses, if they receive an investment from a CAPCO that, within 4 years of its designation as a CAPCO, invests at least one-half of its certified capital in qualified investments in a development stage business.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Department of Insurance
Office of Administration

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Director
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